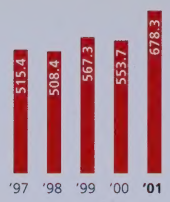
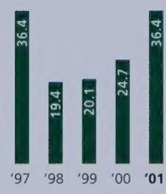
New Beginnings

Canada Bread Company, Limited Annual Report 2001



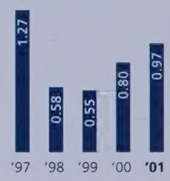
Sales
(millions of dollars)

Sales were up over last year on all product lines and include Multi-Marques sales for the 4th quarter.



Earnings from Operations
Before unusual items
(millions of dollars)

The strong earnings growth of 48% over last year is attributable to higher sales, a focus on margin, and improvement through cost reduction initiatives and the contribution from Multi-Marques.



Earnings per share
Before unusual items
(dollars)

Earnings per share have increased for 10 consecutive quarters.

Canada Bread Company, Limited is a leading Canadian manufacturer and marketer of value-added flour based products. The Company's products include fresh bread, rolls and bagels; frozen bagels and dough products; par-baked bread products; sweet goods; and specialty pasta and sauces. Canada Bread maintains a national presence with five principal brand names: Dempster's, Olivieri, Tenderflake, POM and Ben's. Canada Bread is 68% owned by Maple Leaf Foods Inc.

Profitable Growth

(in thousands of dollars except per share amounts)	**2001**	2000	1999	1998	1997
Consolidated Results					
Sales	**$ 678,348**	$ 553,660	$ 567,251	$ 508,445	$ 515,364
Earnings from operations, before unusual items(i)	**36,397**	24,652	20,111	19,392	36,366
Earnings from operations	**36,397**	24,652	11,761	4,991	36,366
Net earnings	**20,853**	17,240	6,302	2,896	31,117
Financial Position					
Net assets(ii)	**$ 339,462**	$ 273,137	$ 270,979	$ 282,940	$ 291,795
Shareholders' equity	**251,154**	235,441	231,160	229,998	232,408
Net borrowings	**45,778**	3,557	16,314	29,071	36,650
Per Share					
Net earnings	**$ 0.97**	$ 0.80	$ 0.29	$ 0.14	$ 1.46
Net earnings before unusual items	**0.97**	0.80	0.55	0.58	1.27
Dividends	**0.24**	0.24	0.24	0.24	0.24
Book value	**$ 11.73**	$ 10.99	$ 10.79	$ 10.74	$ 10.86

(i) Before taking account of a special earnings charge of $8.4 million in 1999 and $14.4 million in 1998.
(ii) Total assets, less cash and non-interest bearing liabilities.

Operating earnings increased from $24.7 million in 2000 to $36.4 million in 2001, representing an increase of 48%. Earnings per share increased to $0.97 from $0.80, an increase of 21.3% (excluding a tax benefit in 2000, earnings per share increased to $0.97 from $0.67, a gain of 45%). The Company has now experienced 10 consecutive quarters of year over year improvement in operating earnings and earnings per share has increased by 76% since 1999.

These results come from a sustained focus on improving our fundamentals through implementing our five-point plan. In 2001 we not only saw continued improvement in our margins but also renewed top line growth. Efforts to strengthen our customer relationships, build our brands, improve field execution and expand our geographic reach (including our sales to Maple Leaf Bakery in the U.S.) led to organic sales growth in each of our businesses. In the fourth quarter, the acquisition of Multi-Marques contributed further top-line growth.

While we have sustained our focus on the same fundamentals, we have gained momentum, and we have continuously expanded the opportunities against which we are executing. In many ways, 2002 will represent more of the same. But, in other ways, 2002 represents an important New Beginning for Canada Bread. Our union with Multi-Marques creates the opportunity to serve our customers on a national basis, expands our range of brands and product categories, infuses an expanded talent pool, creates the potential for sharing best practices and provides a host of other synergies and resources to invest in building our business. We are currently engaged in developing and executing against this opportunity set.

In each area of our five-point plan we made progress in 2001 and have identified opportunities for 2002 as follows:

1. Build leadership capacity

In 2001 we recruited another 26 talented leaders to our senior and middle management leadership team bringing the total talent infusion to 101 since January 1999. The official launch of our journey to become a Six Sigma company brought with it a number of black belts (Six Sigma experts) to our organization. Improved execution of the Maple Leaf Performance Assessment and Development process strengthened the quality of our developmental feedback and career planning for all of our team members. As an expanded company our larger talent pool will create opportunities to learn a lot from each other. We will also continue to improve our leadership bench strength through a combination of internal development and attracting talent to our Company.

2. Create a high performance culture

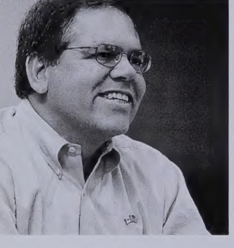
We now have a full cadre of cross-functional business teams led by general managers – and have just added Fresh Quebec / Multi-Marques as a fully functioning team to our structure. Over the past year, we have grooved the performance management processes of our teams to sharpen our focus on achieving our goals and intensifying our performance culture. In doing so we have developed a more forward looking, externally focused orientation. Over the next year a common measurement and performance management system will be established across our new businesses. As we bring together our companies, we will be diligent in ensuring that internal issues do not consume us. Rather, we see the New Beginning as an opportunity to create stronger relationships with our customers and consumers. To realize this possibility we are engaging our total bakery organization to pursue the vision of the new Canada Bread "to bring the freshest bakery solutions to everyday living". There is a section in this report that brings the vision to life.

3. Provide total category leadership

In 2001 we made substantial progress in providing leadership to the categories we participate in. Our brands grew in a number of segments when successful consumer initiatives were coupled with strong field execution – for example Dempster's WholeGrains and Olivieri sauces. With Multi-Marques we have added leading

bakery brands in Quebec and Atlantic Canada, such as POM, Bon Matin and Ben's, and have entered the sweet goods business. The Olivieri brand has been repositioned as "a fresh take on tradition" and launched in the U.S. market. Maple Leaf Bakery improved margins and increased sales of our U.S. frozen bakery business. We developed a deeper set of insights into consumer needs that are being translated into new offerings. Continued improvements in field sales and category management enabled closer working relationships with a number of our customers.

In 2002 we will build on these efforts to help our customers and surprise and delight our consumers while creating an improved margin for Canada Bread. Our New Beginning with Multi-Marques creates the opportunity to immediately leverage technical and marketing skills across our company. We have a robust set of product, brand, margin, and category leadership initiatives planned for 2002.

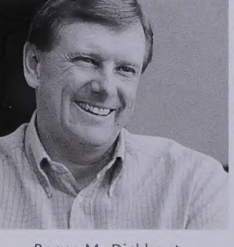


Richard A. Lan,
Chairman of the Board

4. Improve customer satisfaction and reduce waste by becoming a Six Sigma company

In 2001 we began the multi-year effort of becoming a Six Sigma company. We expect this statistically based improvement approach to further reduce variability in our business processes – simultaneously improving customer satisfaction and reducing waste. Building on the momentum of the previous year we saw manufacturing and distribution system waste, respectively, decline by 22%.

Each of our manufacturing facilities has plans in 2002 for further improvements. Our New Beginning with Multi-Marques also creates opportunities to optimize our configuration and share best practices across our network. In addition, in 2002 we will be ramping up our improvement efforts – with a combination of physical logistics and management process changes to simplify our system and better match supply and demand.



Roger M. Dickhout,
President and
Chief Executive Officer

5. Restructure the industry and drive growth

On October 12, 2001 we created a new Canada Bread by combining Canada Bread and Multi-Marques. In 2002 we will build the New Canada Bread by taking advantage of the opportunities that this New Beginning creates for us. We are off to a good start in the process – getting to know each other, establishing the first steps in a new organization structure and beginning to work on projects together to harmonize our core processes. From this larger platform we are well positioned to pursue growth in our Food Service and retail channels in Canada and the U.S. through our relationship with Maple Leaf Bakery. We have a number of initiatives under development to lay the foundation for future growth opportunities.

In summary, 2001 has been another year of great development in our business. We end the year with better financial performance, a stronger and deeper leadership team, better relationships with our customers, stronger brands, less waste in our processes and an expanded portfolio of businesses.

These achievements have been made possible by a terrific group of people – the employees and franchise dealers of Canada Bread – who have worked tirelessly to build our business and satisfy our customers and consumers. For 2002 we have raised our sights again. We have an exciting array of possibilities before us that build on the momentum we have created. We look forward to continued improvements and growth in the year ahead.

Richard A. Lan,
Chairman of the Board

Roger M. Dickhout,
President and Chief Executive Officer

How we measured up

	2001 Achievements	2002 Priorities
1. Build Leadership Capacity	Recruited 26 leaders to topgrade senior and middle management positions Improved execution of our Performance Assessment and Development process	Build general management skills and share best practices through cross functional / company transfers Upgrade another 30 leadership positions
2. Create a High Performance Culture	Filled out general management complement Added fully functioning business team in Quebec Intensified performance management process Developed more forward looking externally focussed management process	Inculcate leadership values in all business teams Implement common financial and performance management process in business teams Engage organization in "New Canada Bread" vision to rally around customer and consumers
3. Provide Total Category Leadership	Successfully launched WholeGrains Completed consumer grounding work for Dempster's master brand development Improved fresh bread execution during key "back to school" and barbecue seasons Validated Shelf optimization approach for commercial bakery section Developed and launched new Olivieri brand positioning Successfully introduced Olivieri to U.S. market Achieved margin improvements in most businesses	Strengthen and deepen customer relationships Propel Dempster's growth through masterbrand investment and launches Develop POM, Venice, Olivieri, Petite Douceur, Maison Cousin brands Profitably grow Food Service Broaden and deepen margin management skills Deepen penetration of Olivieri in U.S. Strengthen field sales skills
4. Improve Customer Satisfaction and Reduce Waste by Becoming a Six Sigma Company	Initiated Six Sigma program Achieved targeted materials savings Reduced supply chain waste by 22% Achieved fill rates over 99%	Expand and entrench Six Sigma initiatives in manufacturing Review manufacturing strategy opportunities Redesign Direct Store Delivery networks in select markets Share best practices between divisions
5. Restructure the Industry and Drive Growth	Acquired Multi-Marques and began integration Scoped out potential arenas for future growth	Leverage New Beginnings to generate organic growth Develop and begin to execute next round of growth strategies Further develop high margin bakery model

Canad

Brings the Freshest Bakery

Brings

innovates & leads

• • •

action oriented

• • •

distributes widely

• • •

efficient supply chain

• • •

high service level

Freshest

fresh ideas

• • •

freshly baked

• • •

fresh insights

a Bread

Solutions to Everyday Living

Bakery

all bakery products

•••

product and process

•••

dedicated to the craft

•••

proud to be a baker

Solutions

consumer is #1

•••

collaborative customer relationships

•••

category solutions

•••

utilize full-value chain

•••

fair margin allocation

Everyday Living

part of everyone's life

•••

in every neighbourhood

•••

for every occasion

•••

helps live life to its fullest

•••

delivers taste and nutrition

A Fresh Take on Tradition.

we are great tasting, fresh, authentic pasta and sauce

•••

we meet the needs of today's busy families

•••

we celebrate a life rooted in balance that recognizes
a need to regain proper priorities

•••

we take "the way it used to be" and make it
relevant to today's world

Financial Results

This financial review and analysis should be read in conjunction with the consolidated financial statements and related notes included on pages 11 to 20 of this annual report.

Sales:

Sales for the year of $678.3 million increased 23% from $553.7 million last year, reflecting increased sales across all product lines, and the impact of the acquisition of Multi-Marques in October 2001. Excluding Multi-Marques, sales increased by 8% for the year.

Earnings from Operations:

Earnings from operations were $36.4 million, an increase of 48% from $24.7 million last year. This earnings increase reflected strong sales and improved margins due to cost reductions and improved sales mix. The earnings of Multi-Marques were consolidated from the fourth quarter and contributed to the increase in earnings. In addition to these factors, sales to Maple Leaf Bakery in the U.S. increased significantly, adding to profitability.

Other Income:

Other income decreased from $1.9 million in 2000 to $1.3 million in 2001. The Company's share of earnings from its 25% investment in Multi-Marques of $1.4 million (2000 – $1.9 million) was equity accounted and included in Other Income until October 12, 2001, when the remaining 75% of the shares were purchased, from which date the operations of Multi-Marques are consolidated.

Taxation:

The Company's effective tax rate increased to 41.9% in 2001 compared to 28.8% in 2000, primarily due to the effect of a tax benefit of $2.8 million recorded in the fourth quarter last year. *The Company's income tax expense is discussed in note 12 to the consolidated financial statements.*

Acquisition of Multi-Marques:

On October 12, 2001, the Company purchased the remaining 75% of the shares in Multi-Marques, for total consideration of $136 million, including acquisition costs of $4.2 million. As a result of the acquisition, the Company now has a 60% investment in Ben's Limited located in Atlantic Canada. Details of assets and liabilities acquired are set out in note 15 to the consolidated financial statements. As a result of a Competition Bureau review of the transaction, the Company has agreed to sell a portion of its foodservice business in Atlantic Canada within 12 months. This requirement will not have a material financial impact on the overall sales or financial performance of the combined business. The Company has not yet completed the determination of fair values of the individual assets and liabilities acquired, or its restructuring and integration plans for the operations acquired. Accordingly, the allocation of the purchase cost to the assets and liabilities acquired is preliminary and will change as restructuring plans are finalized. No restructuring costs have been accrued in the preliminary purchase accounting included in these financial statements. To the extent that these plans result in the restructuring of any existing Canada Bread operations, the cost of such restructuring will be charged to earnings in the relevant period in 2002.

Cash Flows:

Cash flow from operating activities of $94.6 million represented a significant increase from $25.7 million in 2000. The improvement was largely due to improvements in earnings, proceeds of $28 million from the sale of additional accounts receivable, a large dividend received from Multi-Marques prior to acquiring the company, and reduced investment in working capital.

During the year, the Company invested $11.7 million in capital assets, compared to $7.8 million last year. This level of investment is expected to increase due to the acquisition of Multi-Marques.

Liquidity and Capital Resources:

Canada Bread finances its normal operating activities primarily out of cash flow from operations. In addition, to provide the Company with further liquidity and to finance acquisitions, the Company and its subsidiaries have several credit facilities with major Canadian banks. The Company established a $130 million revolving debt facility in 2001. Of this amount $20 million is a committed four-year revolving facility which, at the option of the lenders, is extendible annually, and if not extended, would be converted into a revolving term facility, maturing in 2005. The remaining $110 million is a revolving/reducing term facility maturing in 2005. As at December 31, 2001, $36 million was drawn under this facility (including drawings of $6 million in respect of letters of credit).

The Company, through Multi-Marques, has a $6.6 million credit facility with a Canadian Chartered Bank that is subject to annual renewal at the option of the lender. This facility was fully drawn at year-end. Through 60%-owned Ben's Limited, the Company has several other facilities with Canadian banks and Government agencies, with maturities that range from 2002 to 2007. At year-end, $8.3 million was drawn under these facilities.

Under revolving securitization programs, the Company has sold, with limited recourse, accounts receivable to a financial institution. At December 31, 2001, trade accounts receivable amounting to $48 million (2000 – $20 million) had been sold under these programs.

Management is of the opinion that current sources of funding provide the Company with sufficient liquidity to finance ongoing business requirements and its planned capital expenditure program.

Dividends:

Dividends paid in 2001 equaled $0.24 per share (2000 – $0.24), resulting in cash payments of $5.1 million (2000 – $5.1 million).

Risk Management:

The Company has financial risk exposure to varying degrees relating to interest rates, foreign exchange and commodity pricing. The cost of flour, which represents a large component of the Company's raw material costs, is directly impacted by fluctuations in wheat prices. The Company manages its exposure to fluctuating flour prices through the use of forward purchase contracts.

Canada Bread also manages its exposure to interest rates by the use of interest rate derivative contracts, while foreign exchange currency contracts are used to fix exchange rates on export sales and expenditures denominated in foreign currencies. *Information on the Company's use of derivative products and its year-end position is set out in note 7 to the consolidated financial statements.*

Environment:

Canada Bread is conscious of its responsibility to the environment and operates within an overall environmental policy that has been formally approved by the Board of Directors. The Board of Directors monitors compliance on a regular basis. The Company's emphasis on the environment extends to the operations of its plants and the impact of these operations on air and water quality, the handling of toxic and dangerous chemicals and the use of packaging. The Company strives to exceed required environmental compliance and to provide a safe workplace for its employees. Resources, training and capital are directed to these areas to ensure that the Company continues to meet its responsibilities. The Company is in material compliance with existing environmental legislation. Expenditures relating to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company.

Related Party Transactions:

Maple Leaf Foods Inc. and its subsidiary, Maple Leaf Foods USA Inc., provide certain management and other services to Canada Bread. The Company's Audit Committee reviews these arrangements on a regular basis. *See note 14 to the consolidated financial statements for further details.*

Change in Accounting Policies:

(i) Hedging relationships

The CICA issued Accounting Guideline AcG-13 which establishes criteria for hedge accounting effective for the Company's 2003 fiscal year. The Company is currently assessing the impact of this new accounting pronouncement.

(ii) Business combinations and goodwill

In September 2001, the CICA issued Handbook Sections 1581 "Business Combinations" and 3062 "Goodwill and Other Intangible Assets". The new standards require the purchase method of accounting for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. The standards also require that specified intangible assets be recognized and reported apart from goodwill.

In accordance with the new standards, effective July 1, 2001, goodwill arising from business combinations completed after June 30, 2001 was not amortized.

Upon full adoption of the standards beginning January 1, 2002, the Company will discontinue amortization of all existing goodwill, evaluate existing intangible assets and make any necessary reclassifications in order to conform with the new criteria for recognition of intangible assets apart from goodwill and will test for impairment in accordance with the new standards.

In connection with the Section 3062 transitional goodwill impairment evaluation, the Company is required to assess whether goodwill is impaired as of January 1, 2002. The Company has up to six months to determine the fair value of its reporting units and compare that to the reporting units' carrying amounts. To the extent a reporting unit's carrying amount exceeds its fair value, the Company must perform a second step to measure the amount of impairment in a manner similar to a purchase price allocation. This second step is to be completed no later than December 31, 2002. Any transitional impairment would be recognized as an effect of a change in accounting principle and will be charged to opening retained earnings as of January 1, 2002.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended December 31, 2001 and 2000 :

(millions of dollars, except per share amounts)	1st Qtr. 2001	2nd Qtr. 2001	3rd Qtr. 2001	4th Qtr. 2001	Total 2001
Sales	137.0	147.9	155.0	238.4	678.3
Net earnings	3.3	3.8	6.4	7.4	20.9
Net earnings per share	$ 0.16	$ 0.17	$ 0.30	$ 0.34	$ 0.97

	1st Qtr. 2000	2nd Qtr. 2000	3rd Qtr. 2000	4th Qtr. 2000	Total 2000
Sales	130.8	139.2	144.0	139.7	553.7
Net earnings	2.3	3.1	4.4	7.4	17.2
Net earnings per share	$ 0.11	$ 0.14	$ 0.21	$ 0.34	$ 0.80

Management's Statement of Responsibility

Management recognizes its responsibility for conducting the Company's affairs in the best interests of all of its shareholders. The consolidated financial statements and related information in the annual report are the responsibility of the management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles which involve the use of judgment and estimates in applying the accounting principles selected. Other financial information in the annual report is consistent with that in the consolidated financial statements.

The Company maintains systems of internal controls which are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Company's assets. The Company's independent auditors, KPMG LLP, Chartered Accountants, have audited and reported on the Company's consolidated financial statements. Their opinion is based upon audits conducted by them in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

The Audit Committee of the Board of Directors, all of whom are independent of the Company or any of its affiliates, meets periodically with the independent external auditors, the internal auditors and management representatives to review the internal accounting controls, the consolidated quarterly and annual financial statements and other financial reporting matters. Both the internal and independent external auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings and makes recommendations to the Board of Directors.

Roger Dickhout

Roger M. Dickhout
President and
Chief Executive Officer

Michael H. Vels
Chief Financial Officer

Steve Weinberger
Senior Vice-President,
Finance

Auditors' Report

We have audited the consolidated balance sheets of Canada Bread Company, Limited as at December 31, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada,
February 8, 2002

Consolidated Balance Sheets

(in thousands of Canadian dollars) As at	December 31, **2001**	December 31, 2000
Assets		
Current Assets:		
Accounts receivable (note 3)	**$ 25,211**	$ 25,094
Due from related company (note 14)	**6,461**	5,281
Inventories	**21,133**	16,065
Income and other taxes receivable	**—**	1,673
Future tax asset (note 12)	**3,094**	2,655
Prepaid expenses	**2,739**	1,740
	58,638	52,508
Investment in associated company (note 15)	**—**	46,971
Property and equipment (note 4)	**251,170**	155,855
Other long-term assets (note 5)	**6,307**	4,061
Goodwill	**126,980**	74,225
	$ 443,095	$ 333,620
Liabilities and Shareholders' Equity		
Current Liabilities:		
Bank indebtedness	**$ 665**	$ 3,280
Accounts payable and accrued charges	**95,061**	59,198
Dividends payable	**1,285**	1,285
Income and other taxes payable	**7,287**	—
Current portion of long-term debt (note 6)	**8,838**	102
	113,136	63,865
Long-term debt (note 6)	**36,275**	175
Future tax liability (note 12)	**38,182**	34,139
Minority interest	**4,348**	—
Shareholders' equity (note 8)	**251,154**	235,441
	$ 443,095	$ 333,620
Contingencies and commitments (note 16)		

See accompanying notes to consolidated financial statements.

On behalf of the Board

Roger Dickhout

Roger M. Dickhout
Director

John Bragg

John L. Bragg
Director

Consolidated Statements of Earnings

(in thousands of Canadian dollars, except per share amounts) Years ended	December 31, **2001**	December 31, 2000
Sales	**$ 678,348**	$ 553,660
Earnings from operations	**$ 36,397**	$ 24,652
Other income (note 10)	**1,312**	1,876
Earnings before interest and income taxes	**37,709**	26,528
Interest expense (note 11)	**1,324**	2,323
Earnings before income taxes	**36,385**	24,205
Income taxes (note 12)	**15,261**	6,965
Earnings before minority interest	**21,124**	17,240
Minority interest	**271**	—
Net earnings	**$ 20,853**	$ 17,240
Earnings per share (note 8)	**$ 0.97**	$ 0.80

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

(in thousands of Canadian dollars) Years ended	December 31, **2001**	December 31, 2000
Retained earnings, beginning of year (note 8)	**$ 198,476**	$ 194,195
Net earnings	**20,853**	17,240
Adjustment to reflect change in accounting for income taxes (note 2(g))	**—**	(7,819)
Dividends declared ($0.24 per share; 2000 – $0.24 per share)	**(5,140)**	(5,140)
Retained earnings, end of year	**$ 214,189**	$ 198,476

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars) Years ended	December 31, **2001**	December 31, 2000
Cash Provided By (used in):		
Operating Activities		
Net earnings	**$ 20,853**	$ 17,240
Items not affecting cash:		
Depreciation	**20,027**	17,385
Amortization	**3,135**	3,265
Minority interest	**271**	—
Future income taxes	**(138)**	(310)
Undistributed earnings of an associated company	**8,986**	(843)
Loss on sale of property and equipment	**102**	—
Other	**(1,731)**	—
Changes in non-cash operating working capital	**43,105**	(11,069)
	94,610	25,668
Financing Activities		
Dividends paid	**(5,140)**	(5,140)
Increase (decrease) in long-term debt, net	**29,711**	(14,601)
	24,571	(19,741)
Investing Activities		
Additions to property and equipment	**(11,729)**	(7,771)
Proceeds from sale of property and equipment	**313**	—
Acquisition of Multi-Marques Inc. (note 15)	**(105,150)**	—
	(116,566)	(7,771)
Decrease (increase) in bank indebtedness	**2,615**	(1,844)
Bank indebtedness, beginning of year	**(3,280)**	(1,436)
Bank indebtedness, end of year	**$ (665)**	$ (3,280)
Supplemental cash flow information:		
Net interest paid	**2,038**	2,234
Net income taxes paid	**9,337**	(11,109)

See accompanying notes to consolidated financial statements.

Years ended December 31, 2001, and December 31, 2000
(tabular amounts in thousands of Canadian dollars, except per share amounts)

1. The Company

Canada Bread Company, Limited ("Canada Bread" or the "Company") and all of its subsidiaries operate in the bakery industry. Its principal business comprises the manufacture and sale of a variety of bakery and pasta products including fresh bread and rolls, bagels and par-baked bread. Canada Bread is 68% owned by Maple Leaf Foods Inc. ("Maple Leaf").

2. Significant Accounting Policies

The following are the significant accounting policies of the Company. The preparation of periodic financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimates.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company had a 25% interest in Multi-Marques Inc., a Quebec based bakery business, which, until October 12, 2001 was accounted for using the equity method. On October 12, 2001, the Company acquired the remaining 75% of Multi-Marques Inc. (note 15), and its results of operations have been consolidated from the date of acquisition.

(b) Hedging arrangements

The Company enters into hedging arrangements to manage its exposure to currency, commodity price and interest rate fluctuations. The gains and losses on these hedging instruments are recognized in the consolidated financial statements in the same period and are matched with the same financial statement category as the item to which the hedged position relates. Any accrued amounts receivable and payable under the terms of such contracts are included in accounts receivable and accounts payable, respectively.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis.

(d) Property and equipment

Property and equipment are recorded at cost including, where applicable, interest capitalized during the construction or development period.

Depreciation is calculated using the straight-line basis at the following rates which are based on the expected useful lives of the assets:

Buildings	2½% – 5%
Machinery and equipment	7½% – 33⅓%

(e) Deferred financing costs

Costs incurred to obtain long-term debt financing are amortized over the term of such debt and are included in interest expense for the year.

(f) Goodwill

The excess of the purchase price over the estimated fair value of identifiable net assets acquired represents goodwill. Goodwill is amortized on a straight-line basis over periods ranging from 10 to 40 years. The Company annually reviews the carrying value of goodwill to determine if an impairment has occurred.

The Company measures the potential impairment of goodwill by comparing the undiscounted value of expected future operating income before income taxes, interest and amortization of goodwill to the carrying value of goodwill. Any permanent impairment in the value of goodwill is written off against earnings.

In accordance with The Canadian Institute of Chartered Accountant's ("CICA") new Handbook Section 3062 relating to Goodwill and Intangible Assets, goodwill arising from the acquisition of Multi-Marques Inc., which was completed after June 30, 2001, has not been amortized.

(g) Income taxes

The Company adopted the CICA's new income tax accounting standards retroactively, effective January 1, 2000, without restatement of the financial statements of any prior periods as permitted under the standard. The standard required a change from the deferral method of accounting for income taxes to the asset and liability method of accounting for income taxes.

Under the new standard, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantial enactment date.

The cumulative effect of this change in accounting for income taxes of $7.8 million is determined as of January 1, 2000 and is reported separately in the consolidated statement of retained earnings as a restatement of the opening balance of retained earnings for the year ended December 31, 2000.

(h) Employee benefit plans

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected heath care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The net actuarial gain or loss is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by all pension plans is 15 years for 2000 and 2001.

(i) Statement of cash flows

Cash and cash equivalents are defined as cash and short-term securities with maturities less than ninety days at the date of acquisition, less bank indebtedness.

(j) Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

(k) Recently issued accounting pronouncements

(i) Hedging relationships

The CICA issued Accounting Guideline AcG-13 which establishes criteria for hedge accounting effective for the Company's 2003 fiscal year. The Company is currently assessing the impact of this new accounting pronouncement.

(ii) Business combinations and goodwill

In September 2001, the CICA issued Handbook Sections 1581 "Business Combinations" and 3062 "Goodwill and Other Intangible Assets". The new standards require the purchase method of accounting for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. The standards also require that specified intangible assets be recognized and reported apart from goodwill.

In accordance with the new standards, effective July 1, 2001, goodwill arising from business combinations completed after June 30, 2001 was not amortized.

Upon full adoption of the standards beginning January 1, 2002, the Company will discontinue amortization of all existing goodwill, evaluate existing intangible assets and make any necessary reclassifications in order to conform with the new criteria for recognition of intangible assets apart from goodwill and will test for impairment in accordance with the new standards.

In connection with the Section 3062 transitional goodwill impairment evaluation, the Company is required to assess whether goodwill is impaired as of January 1, 2002. The Company has up to six months to determine the fair value of its reporting units and compare that to the reporting units' carrying amounts. To the extent a reporting unit's carrying amount exceeds its fair value, the Company must perform a second step to measure the amount of impairment in a manner similar to a purchase price allocation.

This second step is to be completed no later than December 31, 2002. Any transitional impairment would be recognized as an effect of a change in accounting principle and would be charged to opening retained earnings as of January 1, 2002.

3. Accounts Receivable

Under revolving securitization programs, the Company has sold, with limited recourse, certain of its trade accounts receivable to financial institutions. The Company retains servicing responsibilities and assumes limited recourse obligations for delinquent receivables. At year end, trade accounts receivable amounting to $48 million (2000 – $20 million) had been sold under these programs.

4. Property and Equipment

	2001	2000
Land	$ 22,389	$ 13,219
Building	101,634	52,039
Machinery and equipment	254,956	209,510
Construction in progress	4,069	4,388
	383,048	279,156
Less accumulated depreciation	131,878	123,301
	$ 251,170	$ 155,855

5. Other Long-Term Assets

	2001	2000
Net pension asset (note 13)	$ 3,877	$ 3,240
Deferred financing costs	729	—
Other	1,701	821
	$ 6,307	$ 4,061

6. Long-Term Debt

	2001	2000
Revolving term facility (i)	$ 30,000	$ —
Demand term loans (ii)	6,742	—
Revolving term facility (iii)	6,600	—
Other (iv)	1,596	—
Obligations under capital leases	175	277
	45,113	277
Less current portion	8,838	102
	$ 36,275	$ 175

(i) In 2001, the Company established a $130 million debt facility with a syndicate of banks to finance the Multi-Marques Inc. acquisition and provide liquidity for general corporate purposes. The facility is structured as follows:

(a) a $110 million revolving/reducing term facility, maturing in 2005.

(b) a committed four-year $20 million revolving facility which, at the option of the lenders, is extendible annually, and if not extended, would be converted into a revolving term facility maturing in 2005.

These facilities can be drawn in either Canadian or U.S. dollars and bear interest based on Bankers' Acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar loans.

(ii) A subsidiary of the Company has available demand term loan facilities, aggregating $9 million, which bear interest based on Bankers' Acceptance rates and are repayable in quarterly payments of $0.38 million. These facilities are secured by a general security agreement and floating charge debenture over the business assets of the subsidiary and mature on July 1, 2005.

(iii) The Company has available a revolving term facility in the amount of $6.6 million which bears interest based on Bankers' Acceptance rates. The facility is subject to annual renewal at the option of the lender.

(iv) Subsidiaries of the Company have various other non-interest bearing loans which are repayable over various terms from 2002 to 2007. Of these loans, one loan in the amount of $0.5 million is secured by a fixed and floating charge over the business assets of a subsidiary.

In addition, the Company has undrawn demand overdraft facilities of $10.2 million (2000 – $32.6 million) which bear interest at short-term rates.

Required repayments of long-term debt for the next five years and thereafter are as follows:

2002	$ 8,838
2003	1,824
2004	1,744
2005	32,551
2006	92
Thereafter	64
	$ 45,113

7. Derivative Financial Instruments and Risk Management

In the ordinary course of business, the Company enters into derivative financial instruments with Maple Leaf as its counterparty to reduce underlying fair value and cash flow risks associated with foreign currency and interest rates.

(a) Foreign currency risk management

The Company uses foreign currency forward contracts to manage its currency exposure. The currency exposure relates primarily to U.S. dollar denominated export sales.

At December 31, 2001, the Company had outstanding commitments to sell forward US$1.2 million (2000 – US$4.2 million). The Company has designated these contracts as a hedge of forecasted export sales in fiscal 2002.

Based on the exchange rates at December 31, 2001, the Company would have incurred a loss of $0.2 million (2000 – $0.3 million) to settle all its commitments under its outstanding foreign exchange forward contracts.

(b) Interest rate risk management

The Company uses interest rate swaps to manage its exposure to interest rate fluctuations. At December 31, 2001, the Company had entered into interest rate swap contracts, with a notional amount of $73 million (2000 – $24 million) and maturity dates ranging from January 1, 2003 to July 12, 2005. The fixed rates payable by the Company under these contracts range from 2.5% to 4.4%.

Based on market values at December 31, 2001, the Company would have realized a loss of $0.3 million (2000 – gain of $0.1 million) to terminate the above-noted swap agreements. Market values were determined based on information received from the Company's counterparty to these contracts.

The Company's blended average effective cost of borrowing for 2001 was 5.3% (2000 – 5.9%) after adjusting for the payments made under swap contracts in place in 2001.

8. Shareholders' Equity

Shareholders' equity consists of the following:

	2001	2000
Share capital		
(21,416,812 common shares)	**$ 36,965**	$ 36,965
Retained earnings	**214,189**	198,476
	$ 251,154	$ 235,441

The authorized share capital of the Company consists of an unlimited number of common shares.

9. Share Options

The Board of Directors has approved the issue of stock options to certain members of the Company's management. Up to 940,000 shares may be issued under this plan. Options to purchase 333,500 shares remain available to be granted in the future. No options were outstanding at December 31, 2001 and 2000.

Certain employees and officers of the Company participate in the Maple Leaf stock option plan. No costs are charged to the Company for participation in this plan.

10. Other Income

	2001	2000
Earnings from an associated company (note 15)	**$ 1,414**	$ 1,906
Loss on sale of property and equipment	**(102)**	(30)
	$ 1,312	$ 1,876

11. Interest Expense

	2001	2000
Interest expense on long-term debt	**$ 1,003**	$ 1,343
Other net interest expense	**321**	980
	$ 1,324	$ 2,323

12. Income Taxes

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory income tax rate as a result of the following:

	2001	2000
Expected income tax expense based on statutory income tax rate of 41.9% (2000 – 44.5%)	**$ 15,245**	$ 10,761
Increase (reduction) in income taxes resulting from:		
Adjustment to net future tax liabilities for changes in tax laws and rates	**—**	(2,804)
Manufacturing and processing credit	**(2,246)**	(1,943)
Non-taxable gains	**(12)**	(87)
Non-deductible goodwill amortization	**1,075**	1,129
Equity in earnings of associated company	**(541)**	(748)
Large corporations tax	**200**	147
Other	**1,540**	510
	$ 15,261	$ 6,965

Income tax expense attributable to net income consists of:

	Current	Future	Total
2001	**$ 15,399**	**$ (138)**	**$ 15,261**
2000	7,275	(310)	6,965

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31 are presented below:

	2001	2000
Future tax assets:		
Accrued assets	**$ 3,120**	$ 2,310
Other	**2,000**	779
	$ 5,120	$ 3,089
Future tax liabilities:		
Plant and equipment	**$ 35,453**	$ 24,275
Investments in associated company	**—**	7,966
Taxes payable regarding accrued liabilities	**1,760**	—
Other	**2,995**	2,332
	$ 40,208	$ 34,573
Classified in the consolidated financial statements as:		
Future tax asset current	**$ 3,094**	$ 2,655
Future tax liability non-current	**38,182**	34,139
Net future tax liability	**$ 35,088**	$ 31,484

13. Pensions and Other Post-Retirement Benefits

Information about the Company's defined benefit plans as at December 31, in aggregate, is as follows:

	2001	2000
Accrued benefit obligation:		
Balance, beginning of year	**$ 70,480**	$ 64,711
Current service cost	**1,781**	1,508
Plan amendments	**1,175**	—
Interest cost	**4,983**	4,829
Benefits paid	**(5,528)**	(5,263)
Actuarial losses	**215**	3,734
Employees' contributions	**1,033**	961
Balance, end of year	**$ 74,139**	$ 70,480
Plan assets:		
Fair value, beginning of year	**$ 83,051**	$ 79,022
Actual return on plan assets	**(730)**	7,916
Employer contributions	**371**	415
Employee contributions	**1,033**	961
Benefits paid	**(5,528)**	(5,263)
Fair value, end of year	**$ 78,197**	$ 83,051
Funded status – plan surplus	**$ 4,058**	$ 12,570
Unamortized transitional amount	**(10,560)**	(11,338)
Unamortized net actuarial gain	**9,281**	2,008
Unamortized prior service cost	**1,098**	—
Accrued benefit asset	**$ 3,877**	$ 3,240

The significant actuarial weighted average assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2001	2000
Discount rate	**6.75%**	7.5%
Expected long-term rate of return on plan assets	**8.0%**	8.0%
Rate of compensation increase	**4.0%**	4.5%

The Company's net benefit plan expense (income) for the year ended December 31 is as follows:

	2001	2000
Current service cost	**$ 1,781**	$ 1,508
Interest cost	**4,983**	4,829
Expected return on plan assets	**(6,509)**	(6,190)
Amortization of transitional obligation	**(778)**	(777)
Amortization of prior service cost	**77**	—
Net benefit plan income	**$ (446)**	$ (630)

The expense during the year for the defined contribution plan was $1.9 million (2000 – $1.4 million).

14. Related party transactions

(a) Maple Leaf provides the Company with certain management services including treasury, taxation, internal audit, accounting and access to bulk purchasing programs. Pursuant to a Management and Affiliation Agreement entered into in August 1995, the Company paid a management and affiliation fee of $3.4 million (2000 – $3.4 million) to Maple Leaf, which approximates the cost of providing these services.

(b) The Company entered into a Management Services Agreement with Maple Leaf Foods USA Inc. ("Maple Leaf USA"), whereby Maple Leaf USA administered and supervised the management of the Company's U.S. operations commencing January 1996. Under this agreement, sales of product in the United States that is manufactured in the Canadian facilities are managed by Maple Leaf USA. The sales value and profitability related to these sales are recorded in the Company's financial statements. Sales under this agreement during the year were $72.4 million (2000 – $57.0 million), which represent 94% (2000 – 100%) of total export sales. The Company also sells products from time to time to other Maple Leaf divisions or subsidiaries in the normal course of business at market amounts.

(c) The Company receives certain information system services from Maple Leaf for a cost of $2.4 million (2000 – $2.3 million).

15. Acquisition

Effective October 12, 2001, the Company acquired the remaining 75% interest in Multi-Marques Inc., to now hold 100%, for purchase consideration of $136 million, including acquisition costs of $4.2 million. The acquisition has been accounted for by the purchase method, with the results of operations being consolidated from the date of acquisition.

The Company has not yet completed the determination of fair values of the individual assets and liabilities acquired, or its restructuring and integration plans for the operations acquired. Accordingly, the allocation of the purchase cost to the assets and liabilities acquired is preliminary and will change as restructuring plans are finalized. No restructuring costs have been accrued in the preliminary purchase accounting included in these financial statements, or accrued with respect to any restructuring of existing Canada Bread operations that may result from the integration plans, when finalized.

Details of net assets acquired are as follows:

Cash	**$ 30,920**
Net working capital	**6,283**
Other long-term assets	**301**
Property and equipment	**104,191**
Goodwill	**55,891**
Long-term debt	**(15,125)**
Future income taxes	**(12,024)**
Minority interest	**(4,078)**
Net assets of acquired company	**166,359**
Less carrying value of 25 percent interest already owned	**30,289**
Purchase cost of 75 percent interest acquired	**$ 136,070**

16. Contingencies and Commitments

(a) The Company has been named as defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

(b) In the normal course of business, the Company enters into sales commitments with various customers and purchase commitments with various suppliers. These commitments are for varying terms and can provide for fixed or variable prices. The Company believes these contracts serve to reduce risk, and it is not anticipated that losses will be incurred on these contracts.

(c) The Company has operating lease commitments in respect of property and equipment used in operations which require minimum annual payments as follows:

2002	**$ 12,228**
2003	**9,973**
2004	**6,785**
2005	**3,127**
2006	**1,538**
Thereafter	**418**
	$ 34,069

Corporate Directory

Directors

Richard A. Lan
Chairman of the Board
John L. Bragg
Roger M. Dickhout
Sarah A. Everett
Charles J. Mayer
G. Wallace F. McCain
J. Scott McCain
Michael H. McCain
Thomas P. Muir
John F. Petch

Senior Management

Roger M. Dickhout
President, and Chief Executive Officer
Robert I. Busch
Senior Vice-President, Human Resources and Corporate Affairs
Kenrick S. Cross
Vice-President, Nouveau départ/New Beginnings
Louise E. Cumming
Vice-President, and General Manager Fresh Bakeries Ontario
Alison Farrell
Vice-President, and General Manager Olivieri Foods Limited
William N. Gallie
Vice-President, Food Service
Douglas J. MacFarlane
Senior Vice-President, and General Manager Frozen Bakeries
Jeanine L. Madder
Director Corporate Development
C. Barry McLean
Senior Vice-President, and General Manager Fresh Bakeries West
Réal Ménard
Senior Vice-President, and General Manager Fresh Quebec/Multi-Marques
Walter C. Miller
Vice-President, Manufacturing and Six Sigma
Maurice S. Skivington
Vice-President, Information Systems
Carl T. Sparkes
Senior Vice-President, and General Manager Fresh Bakeries East
Michael H. Vels
Chief Financial Officer
Steve Weinberger
Senior Vice-President, Finance

Shareholder Information

Auditors

KPMG LLP

Registrar and Transfer Agent

Computershare Trust Company of Canada

Head Office

10 Four Seasons Place
Etobicoke, Ontario M9B 6H7
Tel: (416) 622-2040
www.canadabread.ca

Annual Information Form

Copies of the Company's Annual Information Form, filed with regulatory authorities, are available from the Corporate Secretary, upon request.

Annual Meeting

The Annual Meeting of the Shareholders of Canada Bread Company, Limited will be held at the Metro Toronto Convention Centre, North Building, 255 Front Street West, Toronto, Ontario, Room 206 D & F on Friday, May 3, 2002, at 10:00 o'clock in the forenoon.

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